

HOUSE BUDGET COMMITTEE

Democratic Caucus

The Honorable John M. Spratt Jr. ■ Ranking Democratic Member

B-71 Cannon HOB ■ Washington, DC 20515 ■ 202-226-7200 ■ www.house.gov/budget_democrats

November 16, 2004

Republican Mismanagement of the Debt Limit: Short-term and Long-term Consequences

A report by the Democratic Staff of the House Budget Committee

This document has not been reviewed and approved by the Democratic Caucus of the Budget Committee and may not necessarily reflect the views of all members.

The United States Faces a Debt-Limit Crisis

The Congress has just two days to pass an increase in the nation's statutory limit on the public debt. Without such action, the hard-earned high standing of U.S. Treasury securities in the world's financial markets could be damaged. Furthermore, under the Republicans' policy proposals, the debt limit will need to be almost doubled over the next ten years — indicating the significant danger posed by their reckless fiscal course.

On October 14, Treasury Secretary John W. Snow informed the Congress that the federal government had reached its statutory debt limit. From that date forward, the Treasury has had to resort to “extraordinary measures” to avoid breaching the limit while meeting the cash obligations of the government. Then, on November 3, Acting Assistant Treasury Secretary for Financial Markets Timothy Bitsberger announced that the Treasury will not be able to hold a scheduled securities auction on November 18 unless the Congress increases the statutory debt limit before that date.

Investors around the world — governments, individuals, and businesses like insurance companies and pension managers — depend on the reliability of sales and redemptions of Treasury securities. The soundness of our financial management is the foundation of the value of our bonds, notes and bills — and the dollar itself.

The Administration and the Republican Congress have ignored numerous requests from Representatives Spratt, Rangel, and Stenholm to address the debt limit in a bipartisan and timely manner, with full and open debate and a clear up-or-down vote. If the Administration had truly wanted timely action on the debt limit, it could have prevailed on its leaders in the Congress to make it happen. Yet there has been no congressional action to raise the debt ceiling.

For the Republican congressional leadership and the Administration to treat this nation's world-wide financial standing in such a cavalier and short-sighted manner is to put at genuine risk the fruits of a long-standing tradition of financial responsibility.

The Rise in the Debt Reveals Republican Fiscal Failure

Under the Administration of President Clinton in fiscal years 1998 through 2000, the federal government enjoyed its first budget surpluses since 1969, and its largest surpluses on record. The Treasury actually paid off \$362.5 billion of debt held by the public, with another \$90.2 billion paid down in 2001 under policies partly put in place while President Clinton was still in office. When President Bush took office, his Office of Management and Budget (OMB) projected that the nation would not reach its statutory debt limit until 2008.

Democrats warned from the outset of the Bush Administration that its policies were reckless and irresponsible. For example, in the House debate on passage of the first Republican budget resolution on March 28, 2001, Representative John Spratt said:

Today I have one priority, one overriding objective, and it is simply this: to make sure that we do not backslide into the hole we

just dug ourselves out of. That is my overriding objective and that is why I have a problem with the Republican resolution, because it leaves so little room for error.

I hope that these blue-sky projections that total some \$5.6 trillion in surpluses over the next 10 years will materialize. It will be a great bounty for all of us. But if they do not and if we pass this resolution, we can find ourselves right back in the red again in the blink of an economist's eye.

Just as Democrats feared, the Bush Administration immediately reversed the eight consecutive years of budget improvement under President Clinton. In 2001, the budget surplus was cut almost in half; in 2002, the budget plunged into deficit; in 2003, the deficit grew to the largest in history; and in 2004, the deficit broke its own new record.

The consequences for the public debt were immediate. In 2002, contrary to the Bush Administration's projections that the statutory debt limit would suffice until 2008, the Treasury needed a debt-ceiling increase of \$450 billion. In 2003, the Treasury requested another debt-limit increase, which, at \$984 billion, was the largest in history — exceeding all of the debt inherited by President Ronald Reagan, which was all of the debt accumulated from Bunker Hill to 1981. Still, that largest debt-limit increase in history has lasted the nation only 18 months; now, the Treasury is pressed up against the debt ceiling once again.

When the debt ceiling must be increased three times in four years, it should be an urgent alarm and a call to action. Instead, the most that OMB can say of the deficit in its *Mid-Session Review* is that it is “unwelcome.” There is no shock, no shame, and no solution.

There Is No End in Sight

According to *The Budget and Economic Outlook: An Update*, issued in September by the nonpartisan Congressional Budget Office (CBO), debt subject to limit will continue to rise, reaching \$13.272 trillion by 2014 if there is no change in policy. But realistic adjustments to this CBO baseline to account for the implementation of Administration policies — such as the extension of expiring tax cuts — reveal an even more pessimistic debt picture. If President Bush's 2005 budget is implemented, the government will incur about \$6.2 trillion in additional debt between now and 2014, raising the statutory debt to about \$14.5 trillion — almost double the \$7.384 trillion limit today. With the baby-boom generation then in the early stages of its retirement, such an irresponsible buildup of debt would pose serious risks to our nation's prosperity. Yet the leadership in the White House and the Congress show no awareness or concern about the dangerous prospects under their policies.

Potential Consequences Are Dire, Including Threats to Social Security and Medicare

In 2008, the first of the 77 million baby boomers will begin drawing Social Security benefits. By 2011, the first of the baby boomers will become eligible for Medicare. At this crucial point, when we should be preparing for a demographic tidal wave by saving more, President Bush and the Republican Congress have chosen to save less by running the biggest

deficits in history.

Putting Social Security and Medicare at risk was a consequence of this Administration's policies. Republicans put a higher priority on large tax cuts, disproportionately targeted to those who need the help the least, than on the soundness of the nation's most important retirement security programs. The Center on Budget and Policy Priorities — using the same estimating techniques as CBO, OMB, and GAO — calculates that the 75-year cost of the new tax cuts Republicans propose is between \$12.1 trillion and \$14.2 trillion in present value. This is more than three times the \$3.7 trillion Social Security shortfall estimated by the program's trustees. In fact, this amount exceeds the combined long-run unfunded obligations of both Social Security and Medicare.

And in undertaking his “extraordinary measures” to manage the crisis, the Secretary of the Treasury has involved other retirement programs. The Secretary has replaced Treasury debt in the trust funds of federal employee retirement programs with informal IOUs to free funds to avert default. A large bipartisan majority of the House approved an amendment to the Transportation-Treasury appropriations bill sponsored by Representative Stenholm that would have prohibited the Treasury Secretary from taking these actions.

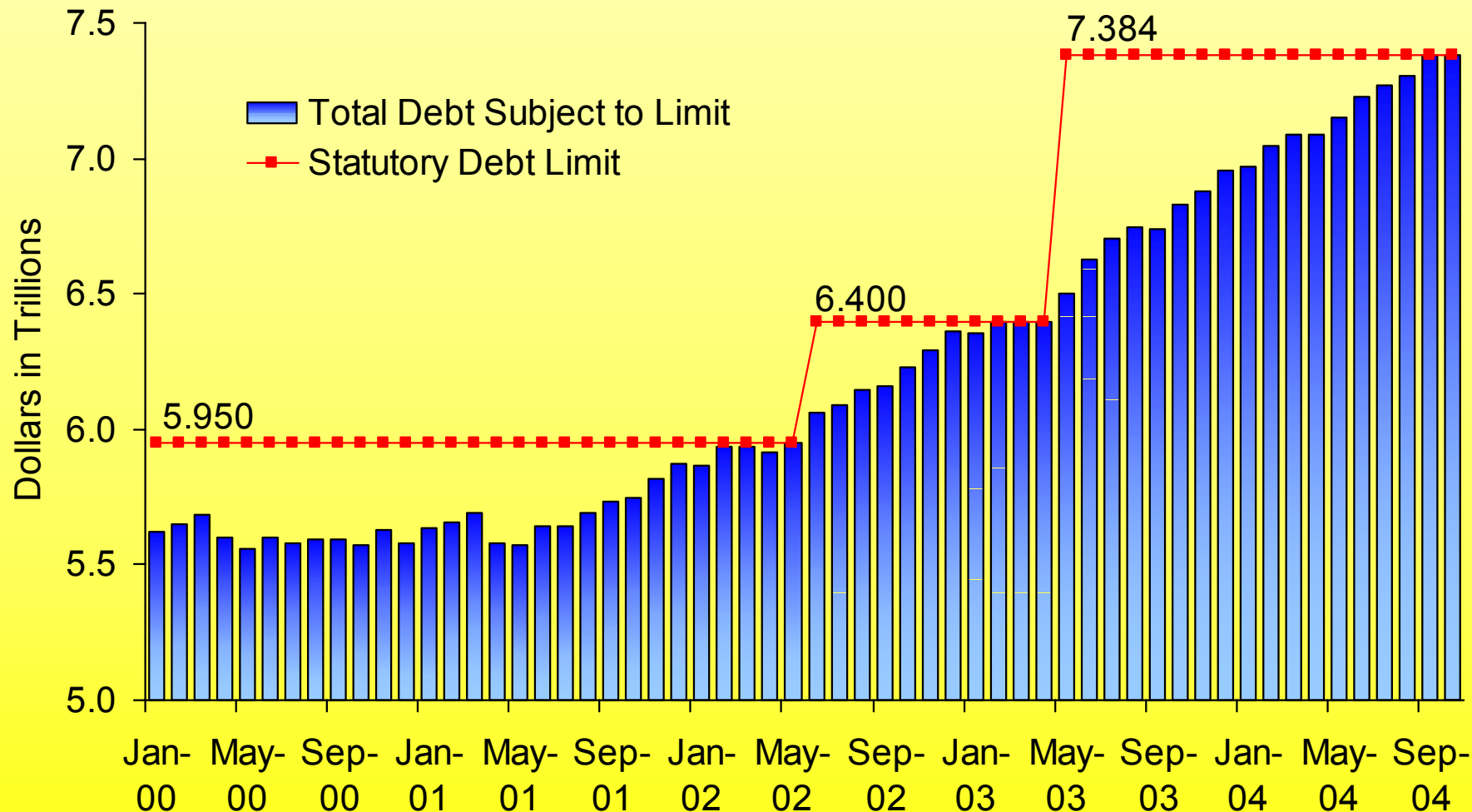
It Is Past Time to Face Up to the Debt Crisis

This year, Republicans in Congress have taken several steps to avoid an up-or-down vote on raising the debt limit. First, they tried to avoid an explicit debate and a House vote by using a rule of the House (Rule 27) to generate a debt-limit bill as an offshoot of a conference report on the budget resolution. But because House and Senate Republicans could not pass a budget, that avenue was closed. Then, Republicans tried to hide a debt-ceiling increase in a must-pass appropriations bill, but even some of their own Members balked. So the Republican leadership adjourned in October without making any attempt to raise the debt ceiling, knowing that Treasury disinvestment of trust funds could forestall the day of reckoning. Instead of facing up to the consequences of their own actions well in advance of a crisis, Republicans risk the financial standing of the world's leading economic power.

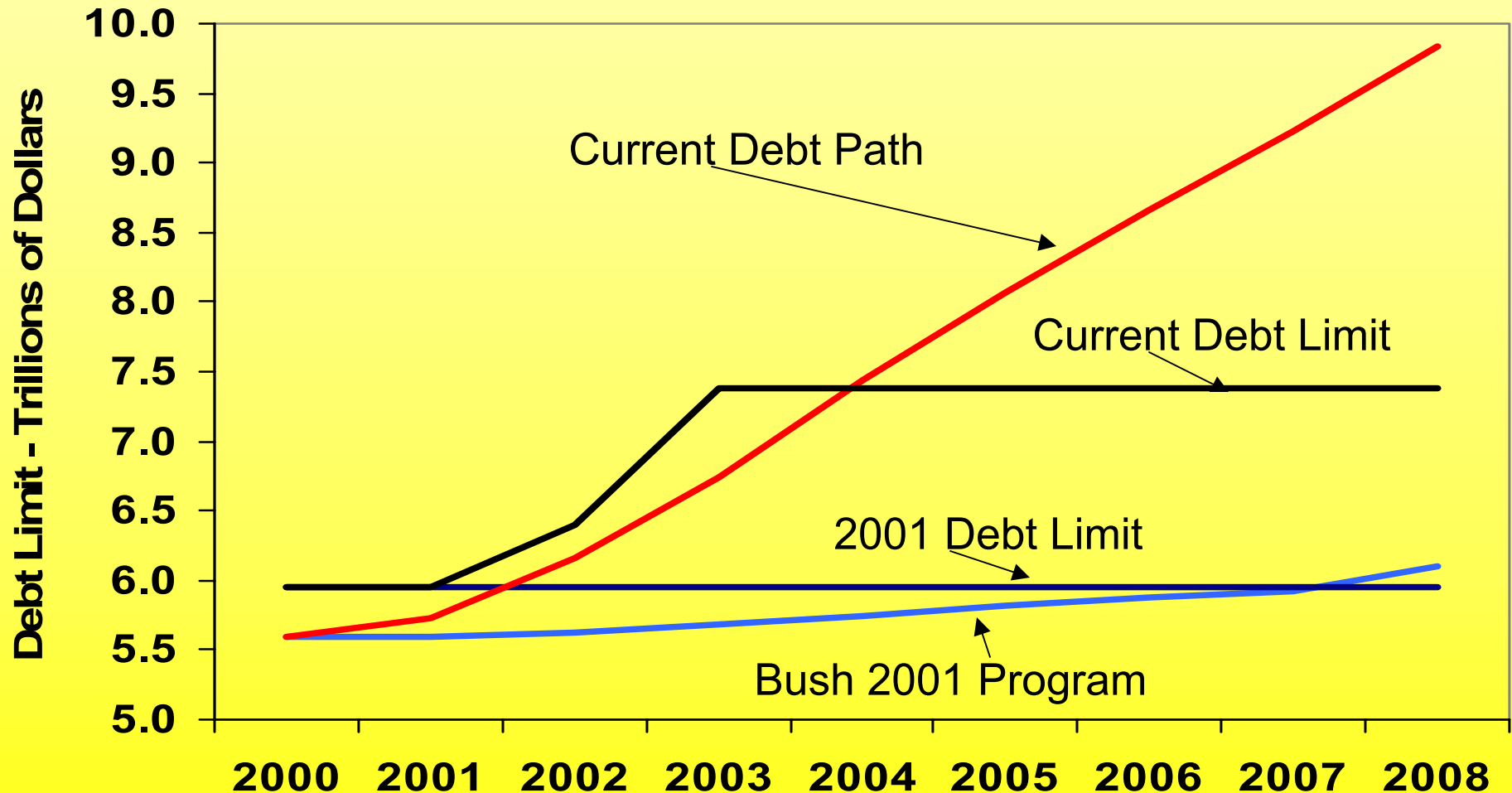
The fiscal burden of the retirement of the baby-boom generation is now just four years away. Before still more precious time slips through our hands, the Congress should confront the debt crisis head on, with a full and open debate, and a clear up-or-down vote. The American people should have a chance to hear about the consequences of the choices of this Administration, and of the choices yet to be made: the choice of tax cuts that empty the Treasury, or of using those funds to safeguard Social Security and Medicare; and the choice between budgeting on impulse, and real budget process disciplines that have already worked to generate the first budget surpluses in a generation. The nation has no more time, and no more treasure, to waste.

Debt Limit Timetable	
April 15	Congressional Republicans fail to pass a budget resolution conference report. As a result, House Rule XXVII (the Gephardt Rule) providing for an automatic debt-ceiling increase bill in the House is not triggered.
June 4	Treasury Secretary John Snow urges Congress to raise the debt ceiling before it leaves for the August recess.
June 7	A Treasury Department spokesman says the debt limit will be reached by late summer, and the Administration asks Congress to raise the debt ceiling as soon as possible.
June 14	Representatives Spratt and Rangel send a letter to Secretary Snow, requesting a more detailed estimate of when the nation is expected to reach the debt limit, and what practices might be used to delay breach of the debt limit. The Secretary replies on July 2 without answering any of the questions.
June 22	House Republicans attempt to include debt-ceiling legislation on the defense appropriations bill. Senate Republicans object to the ploy, and the language is stripped from the final measure.
August 2	In a letter to Congress, Secretary Snow says the debt limit will be reached between late September and early October, and once again urges Congress to act quickly on appropriate legislation.
September 10	Representatives Spratt and Rangel send another letter to Secretary Snow, asking for an estimate of the date the federal debt is expected to reach the limit, rather than the vague range of late September to early October. In addition, they ask(?) the Secretary to detail the measures that might be taken to prevent default. No response is received.
October 4	Representatives Spratt, Rangel, and Stenholm again write to Secretary Snow, requesting a meeting to discuss the questions raised in the September 10 letter. The Secretary does not respond.
October 8	Through press accounts, Secretary Snow insists the U.S. is not at risk of default, even though the country is precariously near the debt limit. The Secretary estimates that extraordinary measures could keep the country beneath the debt limit until about mid-November.
October 9	Congress recesses for the elections, failing to pass debt ceiling legislation. The full faith and credit of the United States government hinges on the accuracy of Secretary Snow's estimate of how long the Treasury Department can use extreme measures to maintain solvency.
October 14	The debt limit is reached. Secretary Snow informs Congress that he will be unable to fully invest a portion of the Federal Employees Retirement Fund as a result of the debt ceiling.
November 18	According to the Treasury Department, the regular auction of Treasury securities cannot be held if the debt limit is not increased.

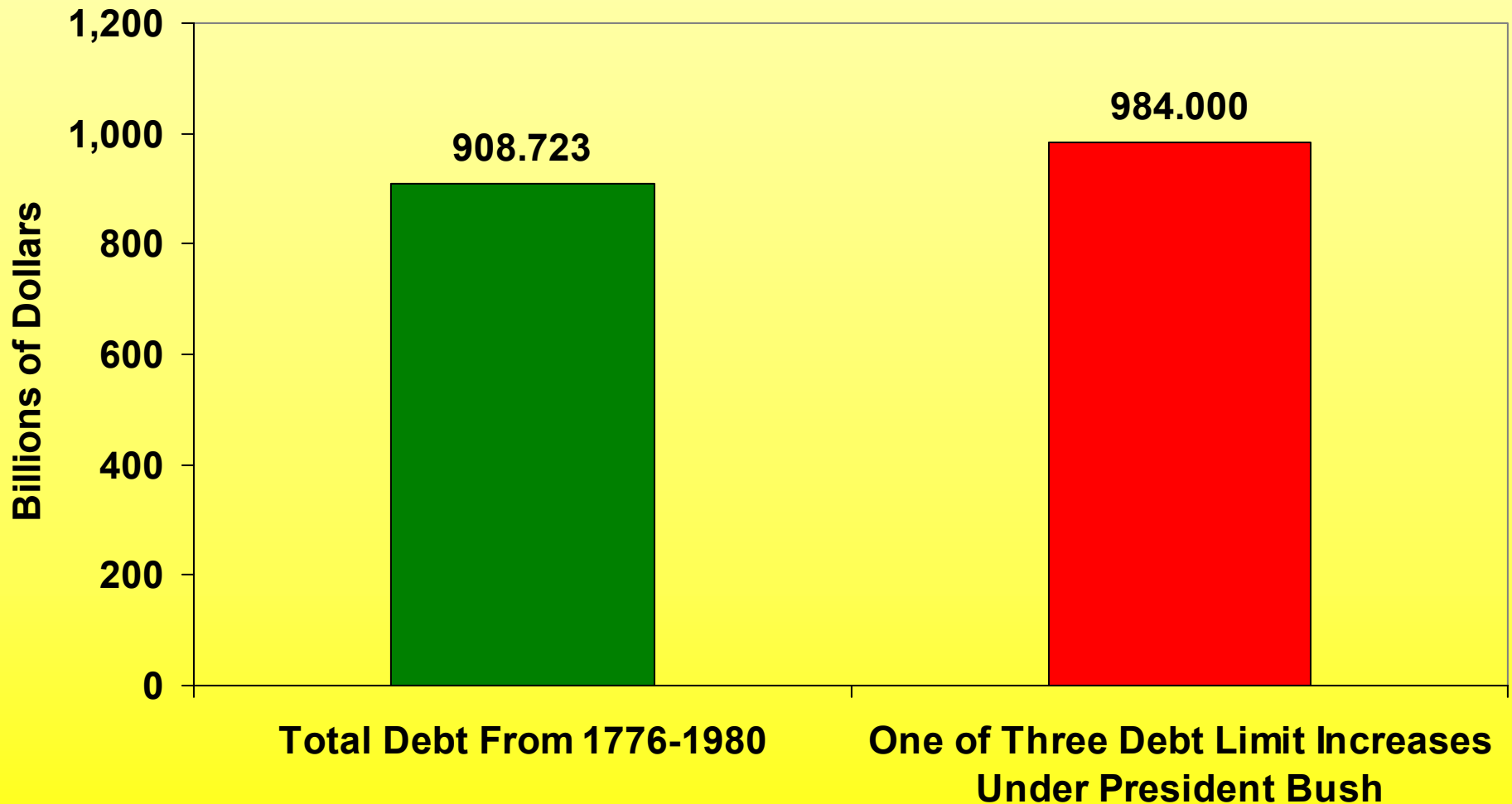
President Bush's Debt Record



President Said Debt Limit Was Good Until 2008



Last Bush Debt-Limit Increase Exceeded Total Debt From 1776-1980



Republicans Increase the Debt Limit

Debt Limit Increases, Billions of Dollars

2002	450
2003	984
2004	690
2014*	6,471

*HBC-D estimate of increases required under CBO projection of President's policies, 2005-2014

Debt Limit Soars

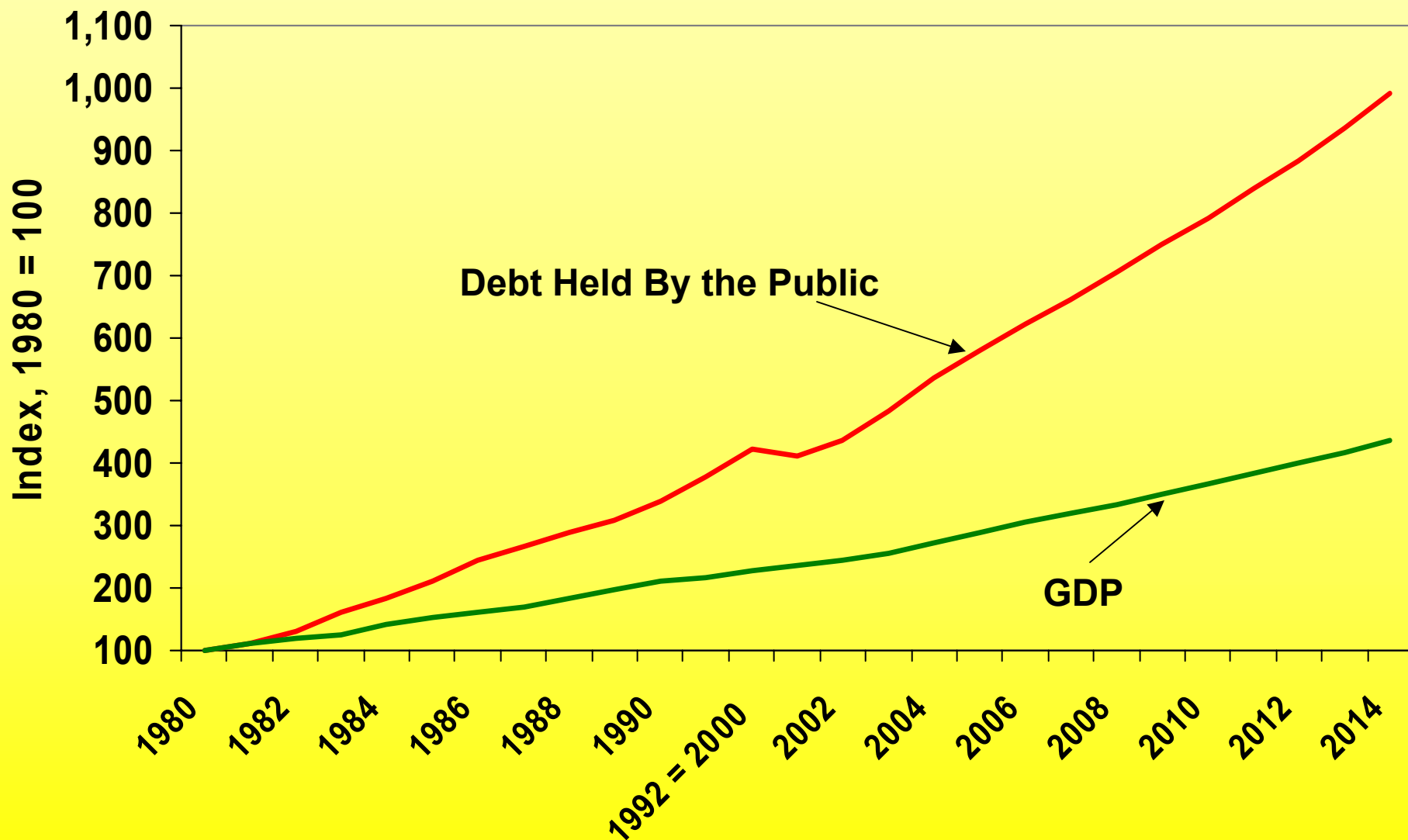
Under Republican Policies

Trillions of Dollars

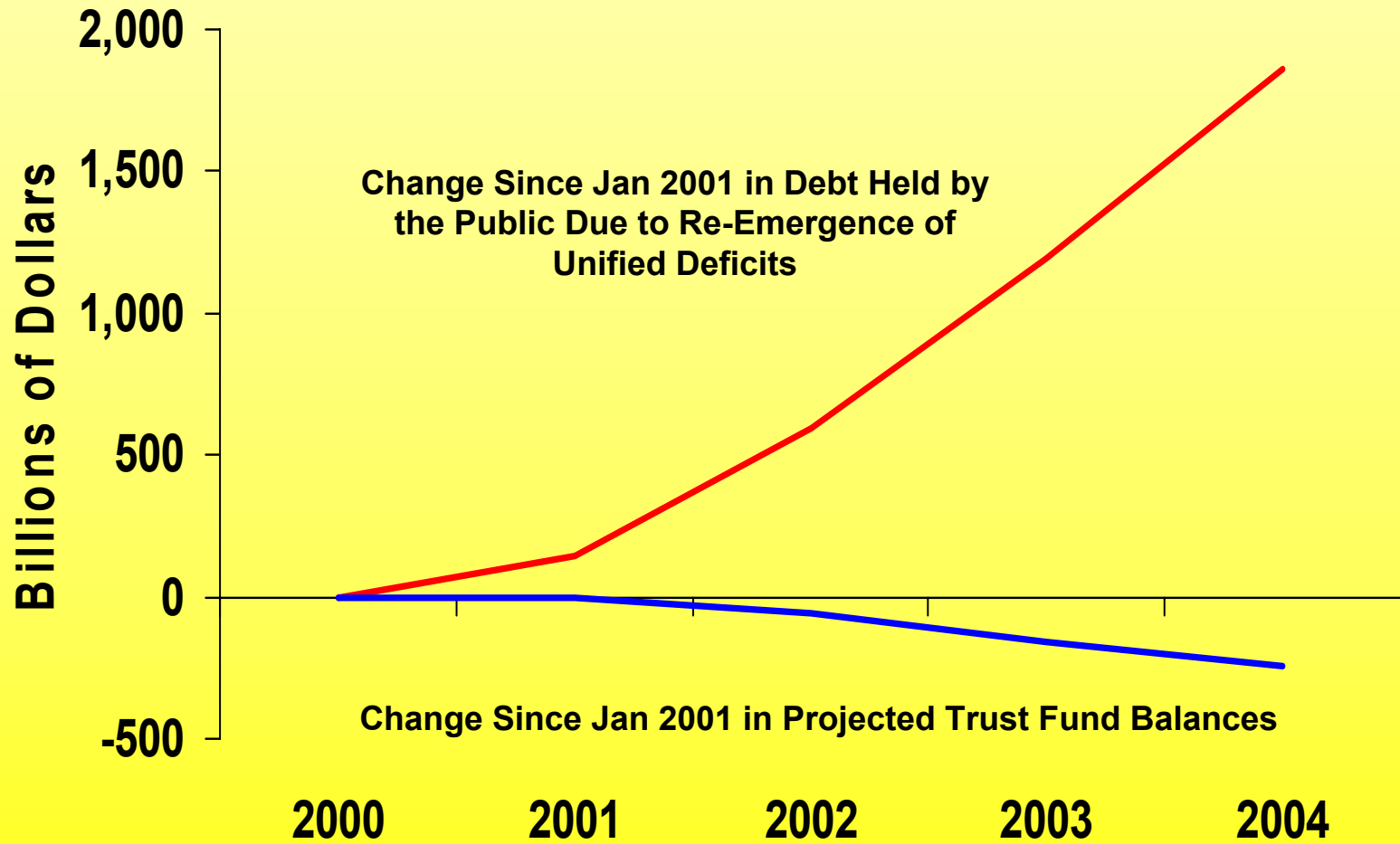
2001	5.950
2002	6.400
2003	7.384
2004	8.074
2014*	14.545

*HBC-D estimate of amount required under CBO projection of President's policies, 2005-2014

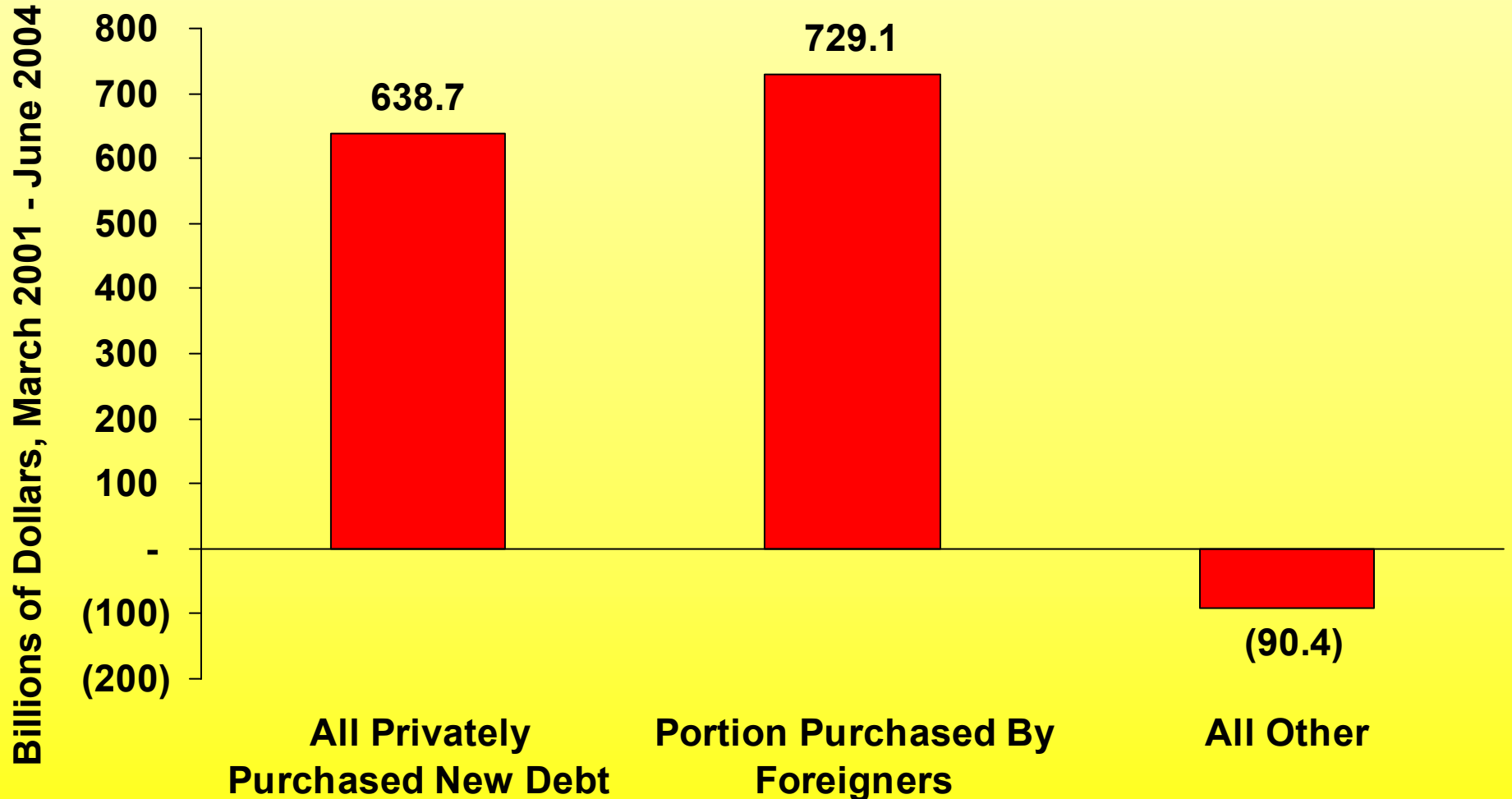
Under Republican Policies, Debt Grows 50 Percent Faster Than The Economy



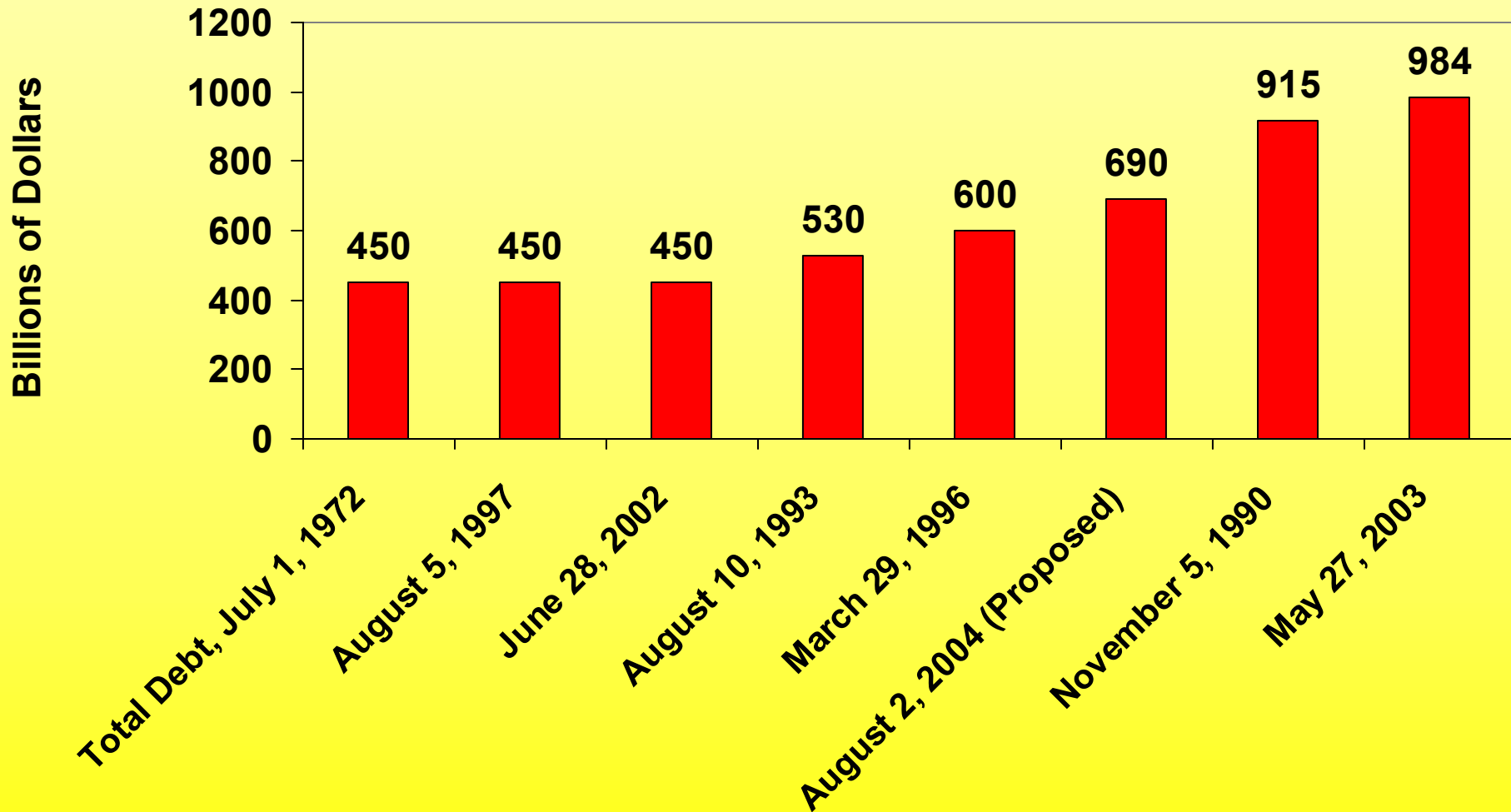
Why Did We Have to Raise the Debt Limit Three Times?



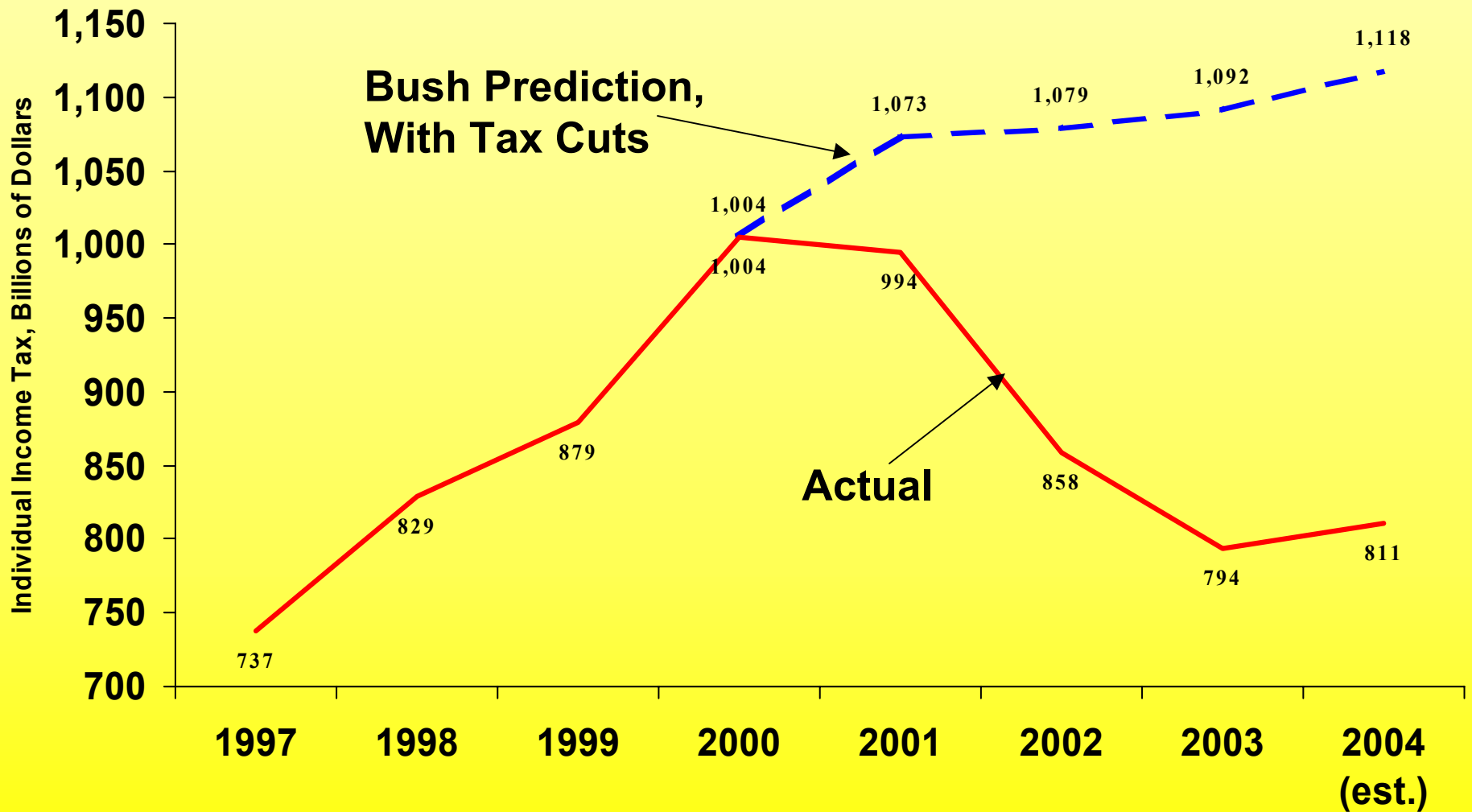
Foreign Purchases of New U.S. Debt



The Largest Debt-Limit Increase In History



Revenues Collapse Under Republican Policies

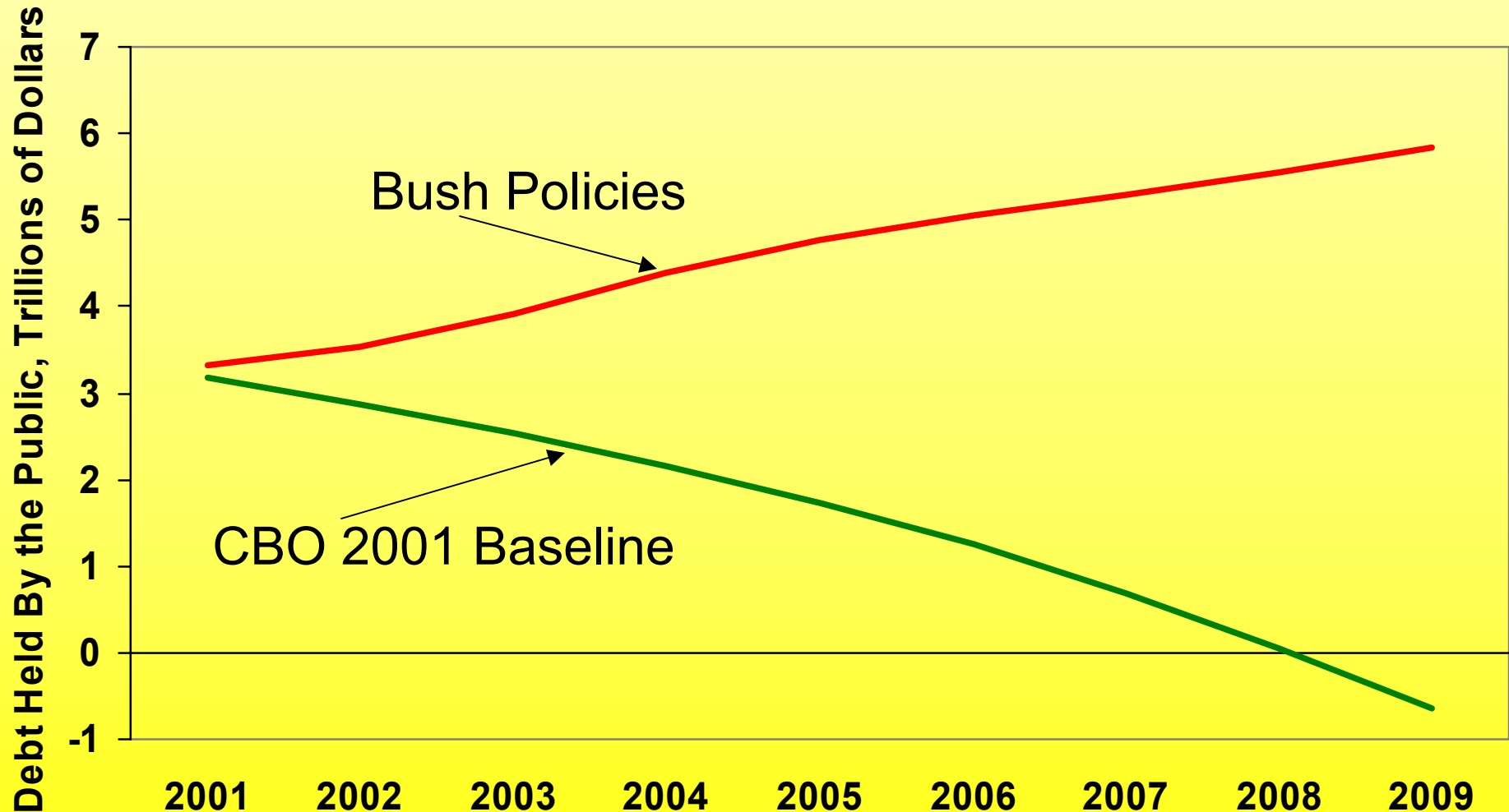


President Clinton Paid Down the Public Debt

Debt Held By the Public, Billions of Dollars

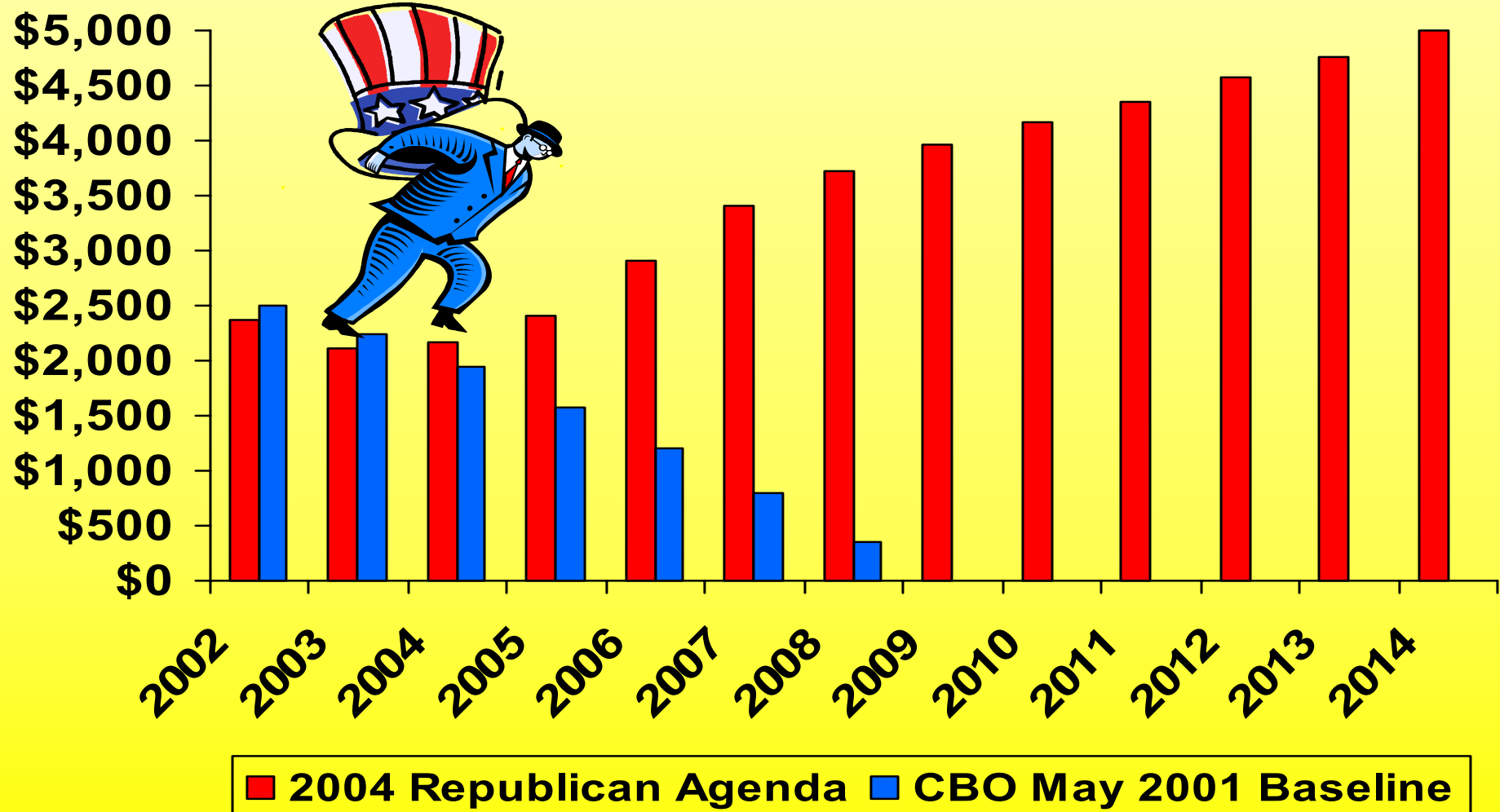
FY 1997	3,772.3
FY 2000	3,409.8
Reduction	362.5

Contrary to Plan, Republicans Do Not Pay Off the Debt



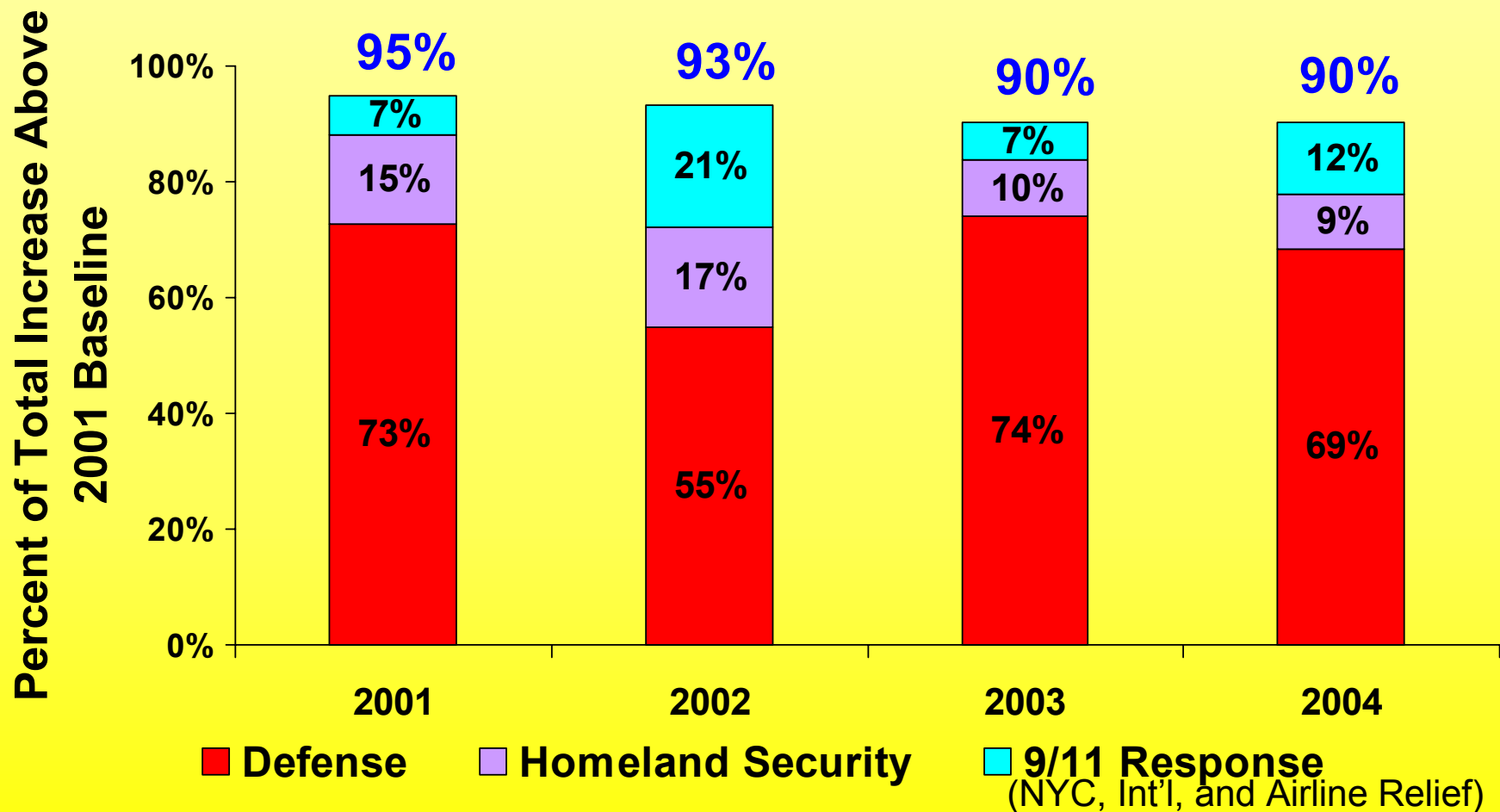
Republican Policies Continue and Raise the Debt Tax

Federal Net Interest per Family of Four

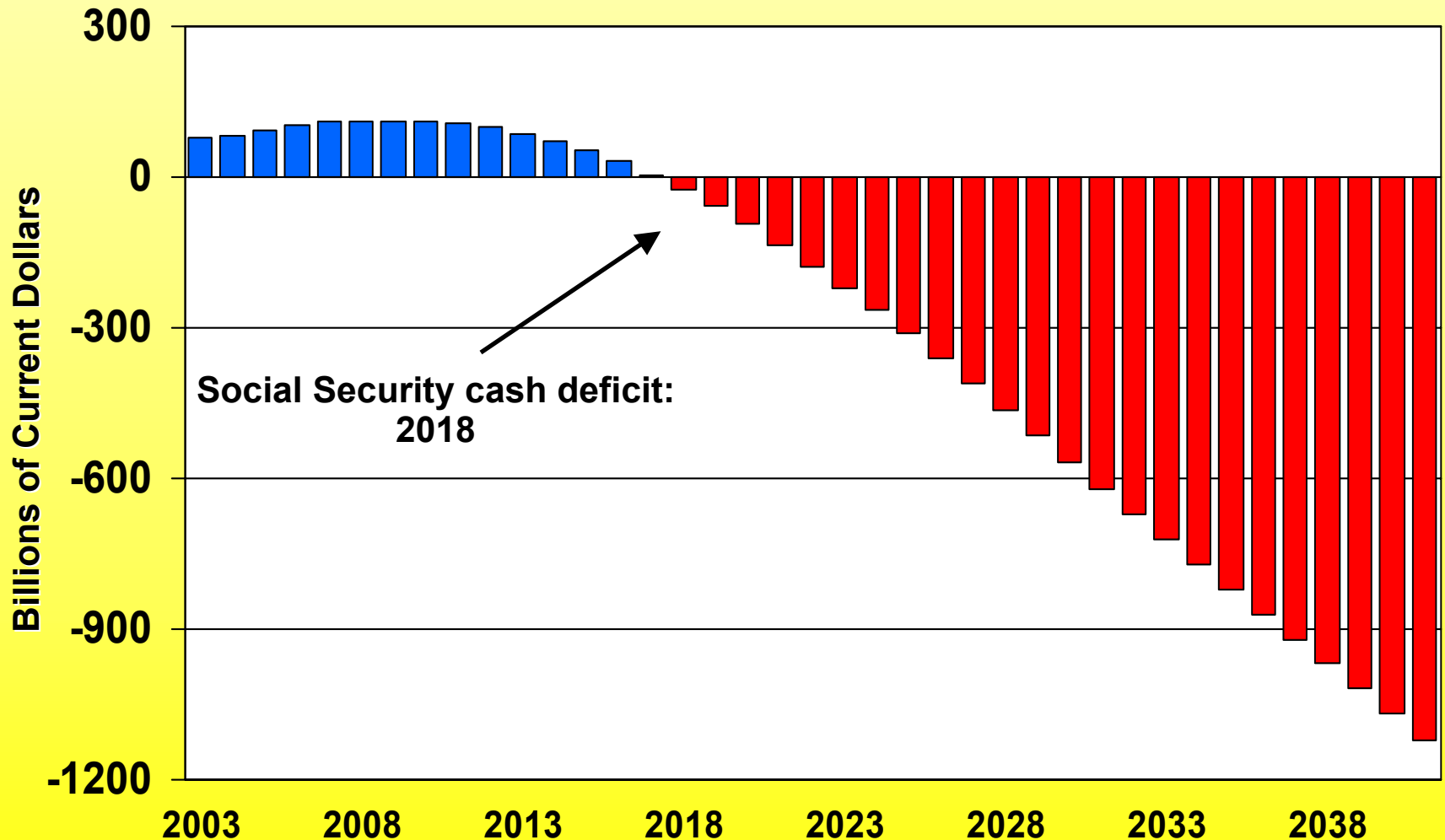


■ 2004 Republican Agenda ■ CBO May 2001 Baseline

Defense, Homeland Security, and 9/11 Response Account for At Least 90 Percent of Funding Increases



Social Security Trust Funds Face Cash Deficit As Baby Boomers Retire



Source: SSA

The \$4.2 Trillion Tax Agenda

President's Tax Proposals: Enacted, Proposed, and Hidden

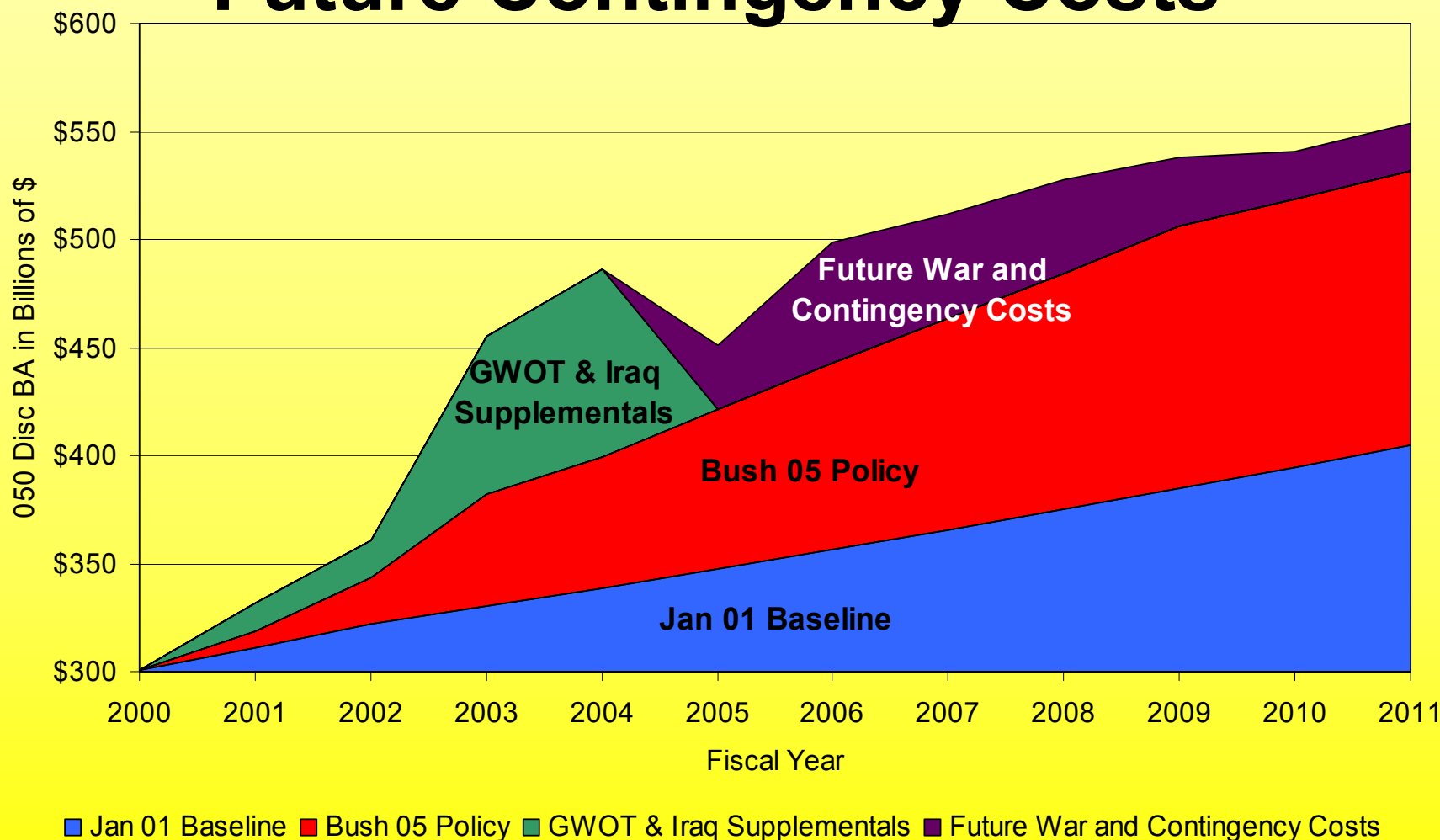
Trillions of Dollars	<u>2005-2014</u>
2001 Tax Cut	1.039
2002 Stimulus	-0.084
2003 Tax Cut	0.140
2004 Tax Cut Extension	0.146
2004 Corporate Tax Cuts	0.000
Make Above Tax Cuts Permanent	1.050
AMT	0.478
New Tax Proposals in 2005 Budget	0.210
Subtotal	2.977
Corresponding Debt Service	1.248
TOTAL TAX AGENDA	\$4.225

Source: CBO and Joint Committee on Taxation. AMT includes interaction with EGTRRA/JGTRRA permanence

New Tax Proposals do not include AMT

Updated 11/15/04

Increased Cost of Defense Under Bush Administration Plus Estimate of Future Contingency Costs

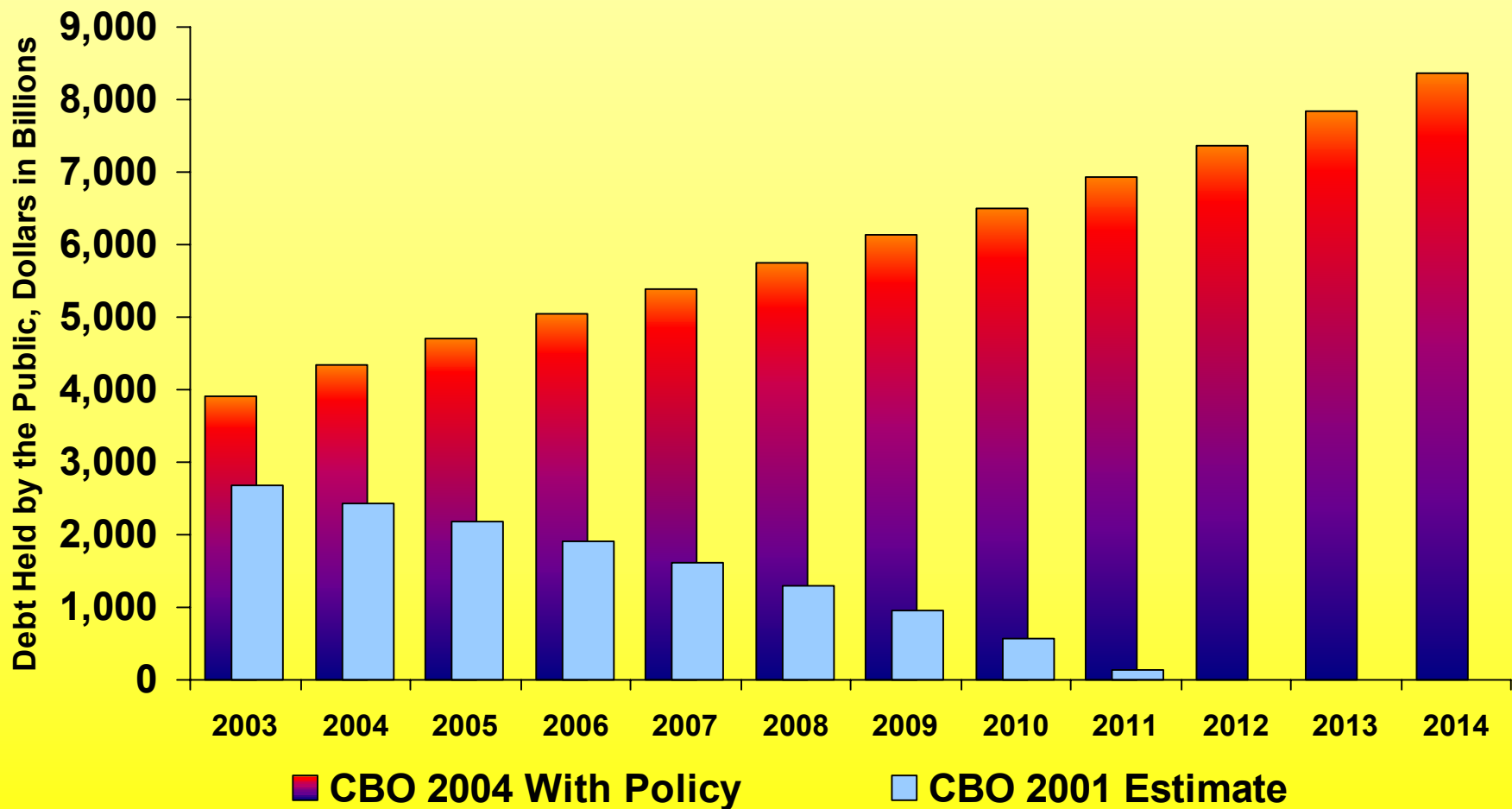


Defense Increases During Bush Administration

(National Defense Discretionary Budget Authority in Billions of Dollars)

	<u>2002- 2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2002- 2011</u>
CBO January Baseline 2001									
	991.0	347.4	356.3	365.5	374.9	384.6	394.5	404.9	3619.0
Policy Increases Excluding Supplemental									
	133.9	74.0	86.3	97.8	109.4	121.9	124.2	126.7	874.2
Iraq/OEF/ONE Supplementals/Future War Costs									
	176.8	29.4	56.3	48.3	43.1	31.4	22.1	22.6	430.0
Total Increase									
	310.7	103.4	142.6	146.1	152.5	153.3	146.3	149.3	1304.2
Total Bush Defense Program									
	1301.7	450.9	498.9	511.6	527.3	537.9	540.8	554.1	4923.2

Contrary to 2001 Estimates, Administration Policies *Increase* National Debt



Republicans Increase the Debt Limit

Debt Limit Increases, Billions of Dollars

2002	450
2003	984
2004	<u>800</u>
Total	2,234